

**STAFF SUMMARY AND RECOMMENDATION
TAX EXEMPT COMMERCIAL PAPER PROGRAM (“TECP”)**

April 25, 2002
Resolution Number: 200

STANFORD UNIVERSITY (the “University”)

I. PURPOSE OF FINANCING: The University is in the midst of a significant multi-year capital improvement plan and is pursuing this TECP financing to issue notes for projects to be completed over the next 30 years. The Authority approved Resolution No. 2002-02 at the March 28, 2002 meeting, permitting the issuance of tax exempt commercial paper notes to fund the financing needs of eligible applicants.

Uses of Funds:

- **Construction/Renovation \$149,979,700**

Student Housing – Stanford University currently houses approximately 3,650 graduate students on campus. The existing graduate housing system is full, and the off-campus housing market is not a viable option for many students because it is expensive as well as having a low vacancy rate. To help meet the student housing shortage while incorporating requirements of the updated Stanford University Community Plan and General Use Permit, the University has a residential building program underway. The program will provide 264 new graduate student units in Escondido Village and an addition of 200-300 new beds for Law School graduate students. Construction began in 1999 and should be completed in 2005.

Academic Facilities and Infrastructure – New buildings and renovations of existing facilities are planned including: completion of seismic retrofitting and systems updating to academic and support buildings; and systems upgrades of existing classrooms, libraries, laboratories, and student activity facilities. Additional projects involve internal utility systems, parking structures and campus transportation programs as well as the construction and renovation of several major new academic and research facilities including the library off-site collection storage (SALIII), the Chemistry/Biology Building, the Old Union/Clubhouse Building Renovation and the Terman Engineering Center Renovation. Construction began in 1997 and should be completed in 2007.

- **Financing costs 20,300**

Total Uses of Funds \$150,000,000

Financing Structure:

- Tax-exempt commercial paper issue
- Negotiated public offering
- Variable interest rates
- 30 year maturity with final maturity in 2032
- Expected Aaa/AAA/AAA – (Moody's/S & P/Fitch) ratings

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II. FINANCIAL STATEMENTS AND ANALYSIS:

STANFORD UNIVERSITY

Consolidated Statement of Activities Unrestricted (000's)

	Fiscal Year Ended August 31,		
	<u>2001</u>	<u>2000</u>	(a) <u>1999</u>
Revenues:			
Student Income	\$ 299,701	\$ 279,939	\$ 268,178
Sponsored research support	727,483	674,408	633,618
Expendable gifts in support of operations	125,284	113,187	97,412
Investment income	444,854	514,217	402,817
Health Care Services	1,010,143	464,069	155,120
Other income	268,167	236,001	158,467
Net assets released from restrictions	64,262	57,491	32,931
Total revenues	<u>2,939,894</u>	<u>2,339,312</u>	<u>1,748,543</u>
Expenses:			
Salaries and benefits	1,468,625	1,082,964	808,661
Depreciation	192,494	194,278	112,093
Stanford Linear Accelerator Center	205,480	179,892	170,660
Other operating expenses	1,027,302	703,343	508,121
Total expenses	<u>2,893,901</u>	<u>2,160,477</u>	<u>1,599,535</u>
Excess of revenues over expenses	45,993	178,835	149,008
Other changes in unrestricted net assets			
Reinvested endowment gains (losses)	(868,919)	1,966,599	1,128,604
Other changes	(590)	148,804	163,569
Net change in unrestricted net assets	<u>(823,516)</u>	<u>2,294,238</u>	<u>1,441,181</u>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>9,014,073</u>	<u>6,719,835</u>	<u>5,278,654</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 8,190,557</u>	<u>\$ 9,014,073</u>	<u>\$ 6,719,835</u>

(a) 2000 restated to conform to 2001 format. 1999 figures have not been restated.

STANFORD UNIVERSITY
Consolidated Statement of Financial Position (000's)

	As of August 31			
	2001	2000	(a)	1999
ASSETS:				
Cash and cash equivalents	\$ 817,343	\$ 533,666		\$ 488,932
Accounts receivable	333,871	565,738		208,155
Inventories, prepaid expenses	80,960	74,926		50,535
Pledges receivable	527,284	481,497		177,101
Student loans receivable	74,185	74,693		73,851
Other loans receivable (principally faculty mortgages)	211,358	173,147		141,332
Investments at fair value	10,140,812	10,784,236		7,807,177
Net assets of related health care entities	5,443	20,063		451,613
Plant facilities, net of accumulated depreciation	2,353,731	2,203,846		1,718,430
TOTAL ASSETS	\$ 14,544,987	\$ 14,911,812		\$ 11,117,126
LIABILITIES AND NET ASSETS:				
Liabilities:				
Accounts payable and accrued expenses	\$ 732,838	\$ 750,803		\$ 424,540
Liabilities under security agreements	511,507	358,441		343,015
Income beneficiary share of living trust investments	271,046	258,100		237,196
Notes and bonds payable	1,445,491	1,370,377		1,126,293
U.S. Government refundable loan funds	50,256	49,311		48,418
TOTAL LIABILITIES	3,011,138	2,787,032		2,179,462
Net assets:				
Unrestricted:				
Designated for operations	1,218,508	1,335,931		918,666
Investment in plant facilities	1,216,566	1,146,307		1,023,620
Endowment gains and funds functioning as endowment	5,750,040	6,511,772		4,325,936
Investment in UCSF Stanford Health Care	5,443	20,063		451,613
Total Unrestricted	8,190,557	9,014,073		6,719,835
Temporarily Restricted	525,896	503,824		289,012
Permanently Restricted	2,817,396	2,606,883		1,928,817
TOTAL NET ASSETS	11,533,849	12,124,780		8,937,664
TOTAL LIABILITIES AND NET ASSETS	\$ 14,544,987	\$ 14,911,812		\$ 11,117,126

Financial Ratios:

	Proforma (b) YE Aug 31, 2001	2001	2000	1999
Debt service coverage (x)	2.26 (c)	2.40 (c)	4.16 (c)	4.13 (c)
Debt to expendable net assets (x)	0.19	0.17	0.14	0.16
Expendable net assets to operations (x)		3.01	4.41	4.38
Margin (%)		1.6%	7.6%	8.5%

(a) 2000 restated to conform to 2001 format. 1999 figures have not been restated.

(b) Recalculates 2001 audited results to include the impact of this proposed financing and a \$50 million taxable note issued April 2002.

(c) Based on operating results.

Financial Discussion:

Stanford University remains strong despite the decline in unrestricted net assets experienced in 2001.

Stanford University continues to hold a leading market position nationwide with exceptional student demand. Stanford remains among the most selective in the nation as indicated by its less than 13% acceptance of freshman applicants in FY 2001. The University is also among the nation's leading research universities and continues to post healthy revenue growth rising nearly 8% over FY 2000 levels to \$727 million in FY 2001. The University's revenue stream is highly diversified with its academic operations generating a strong margin averaging close to 6% over the last three years. However, rising energy costs and falling support from the health care operations places some pressure on overall operations.

Effective March 31, 2000, the University and UC terminated the operating activities of UCSF Stanford Health Care. Notable increases to Health Care Services revenues and other operating expenses are due to the consolidation of financial results and financial position of Stanford Hospital and Clinics (SHC) and Lucile Salter Packard Children's Hospital (LPCH) in the University's financial statements since April 1, 2000.

The income statement reflects a 9% decline in unrestricted net assets of \$823.5 million compared to an increase of nearly \$2.3 billion in FY 2000. This decline follows exceptional investment performance in 2000, which was very high at 38%. The decrease in net assets is directly attributable to the decline in public and private equity market valuations.

During the most recent year, expenses have outpaced revenues, particularly salaries and benefits. The University has had to increase its faculty and staff salaries at above average rates, while offering significant subsidies for housing and other benefits primarily due to its Silicon Valley location.

The balance sheet is solid with substantial liquidity including impressive fundraising results.

The University maintains significant cash reserves increasing 53% in FY 2001 totaling over \$800 million. The expendable net assets to operations ratio is consistent averaging almost 4 times over the last three years indicating that the University can sustain operations for close to four years. Debt service coverage is based on operating results and remains good with a pro forma ratio of 2.26x.

The balance sheet is bolstered further by the University's impressive fundraising results. In FY 2001, the University received a significant \$400 million commitment from the William and Flora Hewlett Foundation in addition to \$460 million in cash gifts received during the year.

The University intends to reduce the rate of growth in debt by funding a higher portion of future projects through gifts rather than debt.

Recently, management completed its comprehensive FY 2002 capital plan and revised its long-term borrowing plans. The University intends to lower borrowing levels by funding a higher component of projects through gifts rather than debt. In addition, using the CEFA TECP program offers many cost saving advantages including: substantially lower interest costs, the ability to retire maturing notes using donations and other funding sources without prepayment penalties or restrictions, and the ability to issue notes for each phase of multiple projects resulting in better management and cost control.

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III. STUDENTS, COLLEGE COSTS, AND FACULTY STATISTICS:

Applicant Pool

As one of the nation's most prestigious universities, Stanford attracts large numbers of highly qualified applicants for admission to its undergraduate and graduate programs. This provides assurance that the University can easily maintain stability of enrollment. For the 2001 fall quarter, the University enrolled 6,637 undergraduate and 6,546 graduate full-time equivalent students. For the academic year 2001, 1,676 bachelor degrees and 2,936 advanced degrees were conferred. The following table provides a summary for the last five years of undergraduate and graduate applications, admissions and enrollment.

Freshman and Transfer (Combined)*

Academic Year	Applications	Offered Admission	Selectivity Ratio	New Enrollments
1997-1998	18,068	2,769	15.3%	1,778
1998-1999	20,218	2,630	13.0%	1,702
1999-2000	19,221	2,718	14.1%	1,770
2000-2001	19,580	2,538	13.0%	1,679
2001-2002	20,265	2,537	12.5%	1,713

* Headcount, not full-time equivalent

Graduate Programs *

Academic Year	Applications	Offered Admission	Selectivity Ratio	New Enrollments
1997-1998	27,924	4,480	16.0%	2,323
1998-1999	28,865	4,601	15.9%	2,376
1999-2000	28,295	4,525	16.0%	2,387
2000-2001	27,095	4,422	16.3%	2,288
2001-2002	27,201	4,271	15.7%	2,175

* Headcount, not full-time equivalent

Enrollments and Degrees

Similar to new enrollments, total enrollments remained fairly constant over the past five years. Accordingly, the number of degrees awarded remained fairly constant as well.

<u>Academic Year</u>	<u>Undergraduate FTE</u>	<u>Graduate FTE</u>	<u>Total FTE</u>	<u>Bachelor</u>	<u>Graduate</u>	<u>Total FTE Enrollment</u>
1997-1998	6,639	6,440	13,079	1,694	2,863	4,557
1998-1999	6,591	6,556	13,147	1,687	2,909	4,596
1999-2000	6,594	6,679	13,273	1,737	2,904	4,641
2000-2001	6,548	6,779	13,327	1,676	2,936	4,612
2001-2002	6,637	6,546	13,182	N/A	N/A	N/A

Undergraduate Tuition, Fees, Room and Board

The University's tuition, room, board and fees for a full-time student for 2001-02 is \$34,221. A five-year summary of comprehensive fees is provided below. Total cost has increased an average of 3.9% per year over the last five years.

<u>Academic Year</u>	<u>Undergraduate Tuition and Fees</u>	<u>Average Room and Board</u>	<u>Undergraduate Total</u>
1997-1998	\$21,300	\$7,557	\$28,857
1998-1999	\$22,110	\$7,769	\$29,879
1999-2000	\$23,058	\$7,881	\$30,939
2000-2001	\$24,441	\$8,030	\$32,471
2001-2002	\$25,917	\$8,304	\$34,221

Faculty Summary

The total number of faculty has increased modestly in the last decade. The following table provides a breakdown of the faculty for each of the last five academic years.

<u>Academic Year</u>	<u>Tenure Full Time</u>	<u>Other Full Time</u>	<u>Part Time FTE</u>	<u>Total FTE</u>
1997-1998	917	582	17	1,516
1998-1999	927	628	19	1,574
1999-2000	934	667	17	1,618
2000-2001	922	716	16	1,654
2001-2002	928	743	14	1,685

IV. BACKGROUND:

General:

Founded in 1885, Stanford University is one of a select group of American universities that has achieved eminence in both undergraduate and graduate education and in a broad range of academic disciplines. It is internationally recognized for the quality of its teaching and research, its distinguished faculty and its outstanding student body. Situated on 8,200 acres near Palo Alto in Santa Clara County, the University is 35 miles southeast of San Francisco and 20 miles northwest of San Jose. The program of instruction at the University is organized around seven schools: Business, Earth Sciences, Education, Engineering, Humanities and Sciences, Law and Medicine.

Administration:

The University is governed by a Board of Trustees consisting of a minimum of 25 and a maximum of 35 members, including the President of the University. The Board is responsible for determining policies for operation and control of the University including, among other things, the adoption of the University budget, establishment of schools and departments, investment and accounting policies, debt policy and land use and development. The Board conducts its business through standing committees, including the Committees on Finance, Development, Audit and Compliance, Academic Policy, Land and Buildings, Alumni and External Affairs and the Medical Center. The Board nominates and selects its successors, eight of whom shall be alumni Trustees.

The Stanford Management Company (“SMC”) was established in 1991 to manage all financial and real estate investment assets of the University. In addition to providing investment management services, SMC is responsible for special investment-related activities such as securities lending, and selection, liaison and oversight of custodians. SMC assists in the management of the University’s debt portfolio and oversees several trusts and investment entities established by the Board.

Accreditation and Affiliations:

The University is fully accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges (“WASC”), the primary accrediting body for institutions of higher education in the western United States. The last WASC accreditation was in year 2000.

The University also has professional accreditation from the Accreditation Board for Engineering and Technology using criteria and standards developed and accepted by United States engineering communities. The following undergraduate curricula are accredited at the University: Chemical Engineering, Civil Engineering, Electrical Engineering, Industrial Engineering and Mechanical Engineering.

Academic Programs:

Stanford is a major research and teaching university offering a wide range of undergraduate, graduate and professional degree programs. The Schools of Earth Sciences, Engineering and Humanities and Sciences (which includes the arts, humanities, sciences and social sciences) offer both undergraduate and graduate degree programs. The Schools of Business, Education, Law and Medicine offer graduate and professional degree programs. Undergraduate students are admitted to the University and have access to any undergraduate major and to classes and research opportunities in all seven schools. Degree programs are offered by departments and through interdepartmental programs involving faculty from multiple departments in one or more Schools. The University, its Schools and its academic programs hold all appropriate accreditations.

Stanford's research enterprise extends throughout the University. In addition to research conducted in the Schools, Stanford has a number of interdisciplinary research institutes and centers which bring together faculty and students from throughout the University to collaborate on research topics that cross traditional boundaries. A representative sample includes the Stanford Linear Accelerator Center, the Hansen Experimental Physics Laboratory, the Stanford Humanities Center, the Center for Computer Research in Music and Acoustics, the Center for Integrated Systems, the Institute for International Studies and the Center for Economic Policy Research. Extensive library and archival resources are available through the Stanford University Libraries and the Hoover Institution on War, Revolution and Peace.

Competition:

Student quality is extremely high and Stanford remains one of the most selective universities in the nation. The University's applications overlap mostly with prominent Ivy League institutions on the East Coast specifically, Harvard, Yale, Princeton and MIT. The University tuition is generally set somewhat below these institutions.

V. CONSOLIDATED OUTSTANDING DEBT (\$000's):

Issue:	Original Issue Amount	Amount Outstanding As of 8/31/01	Estimated Amount Outstanding after Proposed Financing
Existing:			
CEFA Revenue Bonds – Series J, L 1-8, M, N, O, P, Q, R	\$913,698	\$736,793	\$736,793
Department of Education Bonds	17,991	3,222	3,222
Stanford University Bonds	150,000	150,000	150,000
Notes	150,000	142,100	142,100
Commercial Paper – Taxable	N/A	155,000	155,000
Other, with various interest rates	N/A	29,726 ⁽¹⁾	29,726 ⁽¹⁾
Taxable Bonds Series 2002A (April)		<u>N/A</u>	<u>50,000</u>
Subtotal University Notes and Bonds		1,216,841	1,266,841
CHFFA Hospital Bonds	193,895	188,935	188,935
Certificates of Participation	N/A	<u>38,900</u>	<u>38,900</u>
Subtotal Hospital Notes and Bonds		227,835	227,835
Proposed:			
CEFA Tax-Exempt Commercial Paper- 2002 (maximum amount)		<u>N/A</u>	<u>150,000</u>
Total		<u>\$1,444,676</u>	<u>\$1,644,676</u>

N/A – Not applicable

⁽¹⁾ Represents primarily the debts of wholly owned real estate investments.

VI. LEGAL REVIEW:

Staff has reviewed the applicant's responses to the questions contained in the Legal Status portion of the application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution in an amount not to exceed \$150,000,000 to issue tax exempt commercial paper for Stanford University, subject to the notes meeting the minimum TECP program requirements, specified in Resolution Number 2002-02.